



U.S. Department of Housing and Urban Development

Office of Public and Indian Housing

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Special Attention:

State and Area Office Directors of Public  
Housing; Director, Section 8 Financial  
Management Center; Section 8 Public  
Housing Agencies; Secretary's  
Representatives; State and Area  
Coordinators

Notice PIH 99-14 (HA)

Issued: February 24, 1999

Expires: December 31, 1999

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Cross References:

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**Subject: Fiscal Year 1999 Financial Management Requirements  
for Section 8 Moderate Rehabilitation Program (Mod Rehab)  
Housing Assistance Payments (HAP) Contract Expirations.**

1. **PURPOSE** - This Notice provides instructions to PIH State/Area Offices and the Section 8 Financial Management Center (FMC) on financial procedures for implementing Notice PIH 98-62, Fiscal Year (FY) 1999 Renewal of Expiring Section 8 Moderate Rehabilitation (Mod Rehab) Housing Assistance Payments Contracts (HAP), dated December 15, 1998. This Notice updates PIH Notice 98-11, Financial Management Program Requirements for the Moderate Rehabilitation Program, dated February 3, 1998.
2. **BACKGROUND** - As stated in PIH Notice 98-62, the FY 1999 Appropriations Act enacted on October 21, 1998, as Public Law 105-276, modifies the policy for renewing and replacing Mod Rehab HAP contracts expiring in FY 1999. Section 524 of the 1998 HUD Appropriations Act provided for renewal of expiring HAP contracts for "FY 1999 and henceforth," establishing permanent renewal authority until new Congressional action is taken. Therefore, the renewal policy contained in this notice will apply to expirations through December 31, 1999, barring any subsequent statutory changes. This will alleviate the problem experienced over the past two years of late, retroactive funding for the renewal of HAP contracts expiring in the first quarter of FY 2000.

As in prior years, due to late passage of the current year's (FY 1999) Appropriations Act, funds for tenant-based certificates to replace all HAP contracts expiring in the first quarter of Federal FY 1999, from October 1, 1998, to December 31, 1998, have already been assigned and reserved. Under the provisions of the FY 1999 Appropriations Act, eligible property owners may in certain circumstances request renewal of their units for which HAP contracts expired from October 1, 1998, to December 31, 1998. Renewal contract rents for units expiring in the first quarter of FY 1999 will be set using the same policy applicable to units expiring throughout the fiscal year.

3. **APPLICABILITY** - This Notice provides the procedures for the renewal and replacement of expiring Mod Rehab HAP contracts that **are not** eligible for mortgage restructuring. (Properties eligible for mortgage restructuring are those multifamily housing projects covered in whole or in part by a contract for project-based assistance and financed by a mortgage insured or held by HUD under the National Housing Act with rent levels that exceed the rents of comparable properties.)

The provisions in this Notice **for replacement vouchers** applies to all Mod Rehab HAP contracts expiring from January 1, 1999, **to December 31, 1999**. The provisions in this Notice **for renewal** of eligible Mod Rehab HAP contracts applies to the first quarter FY 1999 expirations where owners have requested retroactive renewals, as well as eligible HAP contracts expiring **through December 31, 1999**.

This Notice **is not** applicable to the Section 8 Moderate Rehabilitation Single Room Occupancy (SRO) Program. HUD'S Office of Community Planning and Development (CPD) will issue separate guidance.

4. **GENERAL PROCEDURES** - All Mod Rehab HAP contracts expiring during the period covered by this Notice will either be renewed as Mod Rehab assistance or replaced with tenant-based vouchers.

Eligible HAP contracts that are renewed for an additional 12 months will have contract rents set at the **lower of**:

- (i) existing contract rents, adjusted by an operating cost adjustment factor (OCAF);
- (ii) existing fair market rent (FMRs) (less any amounts for tenant-purchased utilities); or
- (iii) comparable market rents for the market area.

For expiring HAP contracts where units are not eligible or owners choose not to renew, replacement tenant-based assistance will be in the form of Section 8 **vouchers**. The FY 1999 Appropriations Act amends the U.S. Housing Act of 1937 to merge the Section 8 certificate and voucher programs. To assist in this transition, HUD will begin to issue vouchers in lieu of certificates when replacing project-based assistance. The calculation of replacement voucher funds will be based on the new certificate and voucher renewal policy established for FY 1999 in HUD Notice PIH 98-65.

Renewal and replacement funds will be provided on a quarterly basis **only after** the required reporting on the type of assistance to be provided (**for all HAP units expiring in a given period**) is sent from the State and Area Offices to the Section 8 Financial Management Center

(FMC) and then forwarded to the Section 8 Finance Division in Headquarters. Incomplete reports will be sent back to the FMC for completion.

5. **PROCESSING RESPONSIBILITIES** - The individual procedures to be performed by administering housing agencies (HAs), State and Area Offices and the FMC are described below.

#### **HOUSING AUTHORITY**

Each HA has the responsibility for: a) notifying owners of the renewal requirements in Notice PIH 98-62 as well as this Notice, b) assessing whether owners choose to renew or not and c) the determination of the correct renewal contract rent.

The contract rents for renewed Mod Rehab HAP contracts will be determined by the HA under the requirements in **Part 8. Renewal Rent Levels**, of HUD Notice PIH 98-62. For each HAP renewal the HA will use the example format on pages 5 and 6 of Notice PIH 98-62 to determine the lowest of the three rent analysis for each unit size. This will be the renewal rent. The completed rent analysis for each HAP renewal should then be sent to the HUD State/Area Office, attention Public Housing Director. The balance of HAP contracts expiring in the given quarter for an HA will be replaced with tenant based vouchers. Each HA will be contacted by the HUD State/Area Office to confirm the total number of units being renewed and replaced.

For any **Mod Rehab properties that are eligible for mortgage restructuring** whose HAP contracts are expiring within the reporting period, the HA should follow the instructions in Notice PIH 98-62, paragraphs 7. A and B, for reporting to the Multifamily Program Center under the Office of Housing. Because the Section 8 Finance Division under the Office of Public and Indian Housing (PIH) must account for all the expirations, however, the HA should also at this time copy the HUD State/Area Office of Public Housing (PH) of the information provided to the Multifamily Program Center on Mod Rehab properties eligible for mortgage restructuring.

Additional HUD guidance will be forthcoming on the entity responsible for administration of Mod Rehab Renewal HAP contracts in the interim period after HAP expiration while the mortgage restructuring plan is under review.

#### **HUD STATE AND AREA OFFICES**

The HUD State/Area Office will be responsible for

reviewing the renewal rents sent by the HA, calculating the total amount of funding required for each renewed HAP, forwarding total renewal amounts by HA to the FMC and ensuring that the HAs renew the appropriate HAP contracts (as requested by eligible owners) and all expiring units are identified as either renewals or replacements.

The rent analysis for each HAP renewal should be checked to ensure the accuracy of the HA's analysis arriving at the lower of current contract rents, FMR and comparable rents for each unit size. With the correct renewal rent for each unit size, the State/Area Office will then calculate the total funding need for each HAP renewal by multiplying the renewal rent by the number of units for each bedroom size by 12 months. The total renewal amount, and associated units, required for each HA will then be provided to the FMC. Using the HUDCAPS expiration report, the State/Area Office should finally confirm with the HA that the total number of units expiring will be either renewed as Mod Rehab or replaced with vouchers.

#### **FMC**

For each quarter, the Finance Division will provide the FMC with a spreadsheet list of all expiring Mod Rehab HAP contracts contained in HUDCAPS priced for replacement vouchers using HUDCAPS data. The FMC will collect information from each State/Area Office on HAP contracts to be renewed for 12 months, as well as confirmation of the total number of units being replaced. It will be the responsibility of the FMC to verify the accuracy of State/Area Offices' responses. The FMC will then forward the annotated spreadsheet, with required renewal units and funding amounts entered (the balance of expiring units to remain replacement vouchers), back to the Finance Division in Headquarters.

Renewal and replacement funding will be provided on a quarterly basis. No funds will be sent out by Headquarters until a complete spreadsheet report, including all expirations in a given quarter, is received by the Finance Division. Incomplete reports will be returned to the FMC for completion.

6. **NOTIFICATION TO HOUSING AUTHORITIES** - When replacement tenant based assistance or renewal funds for the Mod Rehab program are received, the FMC should reserve the funds in HUDCAPS and prepare a Notification Letter to the HA. Where an HA is receiving both renewal and replacement funds in the same period, one notification letter to the HA is appropriate.

The letter will inform the HA that expiring HAP contracts have either been replaced with tenant based assistance or renewed for the Mod Rehab Program. Also included in the letter should be the expiring project number, new increment number (tenant based assistance only), the number of tenant based assistance units funded and/or renewed Mod Rehab units, funding term, and budget authority.

The State/Area Office will have the responsibility to follow up with each HA to ensure that renewal HAP contracts are executed in a timely manner and that a copy is received and maintained at the State/Area Office.

**7. FINAL CLOSE OUT OF TOTALLY EXPIRED MOD REHAB PROGRAM**

A housing authority's Mod Rehab program will be closed out when every HAP contract under the ACC has expired and been replaced with tenant based assistance. A program that has any Mod Rehab renewal increments still under contract cannot be closed out until the last Mod Rehab renewal increment has expired and been replaced with tenant based assistance.

When a Mod Rehab program is closed out, the HA may choose to use any remaining operating reserves for other housing purposes, as authorized under State and local law, or to donate the operating reserves to other housing programs being administered by the HA. Undisbursed program reserves will be recaptured by the Section 8 Finance Division, HUD Headquarters once the final Year End Statement is processed in HUDCAPS. The FMC will notify the HA by letter of this final recapture amount and provide the accounting entries to be made.

Unless the final expiration occurs on the last day of the HA's fiscal year, the final settlement should represent a partial FY's activities. This is because the Year End Settlement Statement is based upon "actual" amounts for specific periods of time.

The HA must submit a close-out audit to HUD for the closing program. The audit period should be from the closing date of the last Independent Public Accountant (IPA) Annual Audit of the HA's Mod Rehab program to the date of the last expiration. The type of close-out audit is determined by the amount of total federal funds expended by the HA during the final fiscal year. If the HA had expenditures in total federal funds of \$300,000 or more, a Single Audit is required to be performed in accordance with the Single Audit Act, where the auditor should be advised that this is a close-out situation. If

the HA had expenditures of less than \$300,000, a financial statement audit is appropriate. HUD will reimburse the HA for the audit when claimed on their final Year End Settlement Statement.

After the HA has been notified by HUD that undisbursed budget authority (i.e., reserves) have been recaptured by HUD, the HA will record this action in their book of accounts by debiting Account No. 2827, Reserve Surplus Unfunded and crediting Account No. 2810, Unreserved Surplus.

8. **FURTHER INFORMATION**

Any questions regarding this notice should be addressed to the Section 8 Finance Division of the Office of Administration and Budget/CFO, at (202) 708-2934.

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Harold Lucas, Assistant Secretary for  
Public and Indian Housing